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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of 800 Data Base Access Tariffs and the 800 Service Management System Tariff	)	CC Docket No. 93-129

AT&T OPPOSITION TO DIRECT CASES

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SUMMARY

In their Direct Cases, the price cap local exchange carriers ("LECs") seek to justify the methodology that they used to restructure their traffic-sensitive baskets, while adjusting for exogenous costs changes. The combined restructure/exogenous cost change was designed to implement Commission rulings that the price cap LECs establish a new "data base service category" within the traffic-sensitive basket and that exogenous treatment would be allowed only for reasonable costs incurred specifically for implementation of "basic 800 data base service," which would be treated as a "restructured service" under price caps. In the July 19 Order, which designated issues to be investigated, the Commission requested comment on the two methods employed by the LECs and on a third Commission-proposed methodology.

In Part I, AT&T demonstrates that the Commission's alternative Method 3 is the most desirable, because it fully complies with the price cap requirements of revenue neutrality for a restructure and cost-causation, and requires no complex calculations. In contrast to the methodologies employed by some LECs, Method 3 creates no unintended additional pricing flexibility in currently existing service categories and fully assigns exogenous costs associated with the implementation of the data base to the new data base service category. For these reasons, the

LECs that are required to correct their restructure methodology should be directed to use Method 3.

As the July 19 Order found, Method 1 results in only minor changes in pricing flexibility in the original service categories in the traffic-sensitive basket. Thus, the outcome under Method 1 is generally consistent with price cap policies and Method 3, but (as several LECs point out), the calculations involved are unduly complex. On the other hand, Method 2, which was employed by certain LECs to perform the combined restructure/exogenous cost change, does not comply with the revenue neutrality requirements of a restructure because it creates significant additional upward pricing flexibility in existing service categories. Further, it permits exogenous costs to be spread to service categories other than the new "data base service category," contrary to principles of cost-causation and the Commission's rulings in Docket 86-10. As such, the LECs (Ameritech, NYNEX, SNET, SWBT and U S WEST) that employed Method 2 should be required to correct their restructure/exogenous cost methodology.

In Part II, AT&T shows that Bell Atlantic's, SNET's and United's requests for inclusion of overhead costs in the computation of the exogenous adjustment should be denied. The Commission has determined that only those costs "incurred specifically for the implementation and operation of basic 800 data base service" will be afforded exogenous treatment. These LECs have not shown that their overhead expenses, totaling $5.0 million, fall into this category.

Pacific's claim for exogenous treatment of $7.6 million access tandem upgrade costs should likewise be denied. The Commission has already determined that core SS7 costs and accelerated SS7 deployment will not be afforded exogenous recovery.

Lastly, the use by Ameritech, Bell Atlantic and NYNEX of levelized demand to compute their exogenous costs is improper in that it will permit these carriers to over-recover their exogenous price cap expenses. This results in an overstatement of the price cap indices of approximately $4.4 million.

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AT&T OPPOSITION TO DIRECT CASES

Pursuant to the Commission's July 19 Order,[1] American Telephone and Telegraph Company ("AT&T") opposes the Direct Cases filed by certain local exchange carriers ("LECs") concerning their 800 data base access tariffs.[2] The Common Carrier Bureau has suspended these tariffs for one day and allowed them to take effect subject to the outcome of this investigation and an accounting order.[3] For the reasons

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1 800 Data Base Access Tariffs and the 800 Service Management System Tariff, CC Docket No. 93-129, Order Designating Issues for Investigation, 8 FCC Rcd. 5132 (1993) ("July 19 Order"), as most recently extended by Order, CC Docket No. 93-129, DA 94-150, released February 14, 1994.

2 Appendix A identifies those companies whose rates and indices should be remedied.

3 The Bell Operating Companies' Tariff for the 800 Service Management System, Tariff F.C.C. No. 1 and 800 Data Base Access Tariffs, 8 FCC Rcd. 3242 (1993) ("Suspension Order").

discussed below, the Direct Cases of these LECs fail to justify the reasonableness of their 800 data base access tariffs. The Commission should therefore require the price cap companies identified in Appendix A to revise their restructure/exogenous cost methodology, recompute their exogenous adjustments, revise noncomplying rates, and refund the overstated amounts collected during the pendency of this investigation.

I. THE PRICE CAP LECS HAVE FAILED TO JUSTIFY THE REASONABLENESS OF THE METHODS THEY EMPLOYED TO RESTRUCTURE THEIR TRAFFIC-SENSITIVE BASKETS, WHILE ADJUSTING FOR EXOGENOUS CHANGES.

In the 800 Rate Structure Order, the Commission concluded that basic 800 data base service would be treated as a "restructured service" under price caps and that the LECs would be permitted "to treat as exogenous the reasonable costs they incurred specifically" for its implementation.[4] The price cap LECs were further required to place all 800 data base service sub-elements into a new separate "data base service category" within the traffic-sensitive switched access price cap basket,[5] (rather than being permitted to include them in the Local Switching or Local Transport

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[4] Provision of Access for 800 Service, CC Docket No. 86-10, Second Report and Order, 8 FCC Rcd. 907, 911 (¶¶ 26-28) (1993) ("800 Rate Structure Order").

[5] 800 Rate Structure Order, ¶¶ 1, 34.

service categories, as some LECs had advocated).[6] The Commission found that creation of this new service category "will help protect customers against excessive prices for 800 services while granting LECs sufficient pricing flexibility."[7] Consequently, in their 800 data base tariff filings (which are the subject of the instant investigation), the price cap LECs were required to both (i) restructure their traffic-sensitive baskets, and (ii) adjust for exogenous cost changes.

In its July 19 Order, the Commission invited comments about the reasonableness of the methods used by the price cap LECs to restructure their traffic-sensitive baskets, while adjusting for exogenous costs. The Commission identified two methods that LECs had generally employed for restructuring the traffic-sensitive basket and calculating the exogenous change permitted by the 800 Rate Structure Order, and suggested a third method as a possible alternative to the two methods employed by the LECs.[8] The Commission asked for comment on each of the three methods, and in particular on (1) the effect of each method on pricing flexibility; (2) whether the method complies with price cap

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[6] 800 Rate Structure Order, ¶¶ 31-34.

[7] 800 Rate Structure Order, ¶ 34.

[8] July 19 Order, ¶¶ 8-19.

rules; and (3) whether any of the three methods requires a price cap rule waiver.[9]

In their Direct Cases, the LECs have generally asserted that the method that they used in their 800 data base tariff filings is appropriate to restructure their traffic-sensitive baskets.[10] Companies that used Method 1 performed the restructure first, then adjusted the price cap index ("PCI") for exogenous costs changes, whereas LECs that employed Method 2 made the exogenous cost adjustments first and then restructured their traffic-sensitive basket to establish the new service category for 800 data base services.[11]

As the July 19 Order (¶ 10) correctly concluded, "the Commission's rules do not specifically address the proper sequence for compliance when both the exogenous adjustment rules and the restructure rules are triggered simultaneously for a new service category within a basket." At the same time, the method employed should meet defined

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[9] July 19 Order, ¶ 24.

[10] Method 1 (or a variation thereof) was used by Bell Atlantic, BellSouth, Pacific and United. Method 2 was used by Ameritech, NYNEX, SNET, SWBT and U S WEST.

[11] Under Method 3, the Commission-proposed alternative, the PCI is adjusted to reflect the change in exogenous costs, with no adjustment to the existing rates, the existing service band indexes ("SBIs") or the SBI upper and lower limits. A more detailed description of each of the three methods is contained in the July 19 Order, ¶¶ 11-19.

Commission price cap policies and requirements and the Commission's intent in establishing a new and separate service category for 800 data base expenses. In particular, these include (i) the requirement that a restructure must be "revenue neutral" (47 C.F.R. § 61.46(c)), and the obligation that a restructure will not result in a change in the pricing flexibility for the existing service categories,[12] and (ii) the Commission's requirement in Docket 86-10, that the costs must be assigned to the cost-causer, i.e., 800 data base exogenous costs should be recovered only from the newly-created 800 data base service category, with no impact on the existing service categories.[13]

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[12] See 800 Rate Structure Order, ¶ 33 (referring to "the revenue neutrality constraint of the restructured service pricing rules"); Policy and Rules Concerning Rates for Dominant Carriers, Report and Order and Second Notice of Proposed Rulemaking, 4 FCC Rcd. 2873, 3267 (¶ 825 and n.1700) (1989), Second Report and Order, 5 FCC Rcd. 6786 (1990), recon. denied, 6 FCC Rcd. 2637 (1991), petition for review pending sub nom. D.C. Pub. Serv. Comm'n v. FCC, No. 91-1279 (D.C. Cir. filed June 14, 1991) (For a restructure, carrier must "demonstrate compliance with both price cap and band limits" and "it cannot use restructuring as a vehicle for evading the limit on rate increases imposed by price cap regulation.")

[13] 800 Rate Structure Order, ¶¶ 27-28. At the time of the 800 data base access tariff filings, the existing service categories in the traffic-sensitive switched access basket were: (i) Local Switching, (ii) Information, and (iii) Transport. Prior to implementation of 800 data base service and the creation of the new data base service category in the traffic-sensitive basket, 800 NXX routing/switching costs were in the Local Switching service category.

The Commission's alternative Method 3 is the most desirable; it complies fully with the price cap requirements of revenue neutrality and cost-causation, and requires no complex calculations. This is because Method 3 makes no change in the existing service categories' SBIs, upper and lower limits of the SBIs and rates, and it assigns all of the pricing flexibility required to recover data base exogenous costs to the new 800 data base service category. Thus, Method 3 creates no unintended additional pricing flexibility in existing service categories and fully assigns 800 data base-related exogenous costs to the cost-causer.

Indeed, a number of LECs commented favorably on Method 3 in their Direct Cases. Ameritech (p. 7), for example, finds Method 3 "appealing," and NYNEX (p. 8) states that it may be the "best method." GTE (p. 6) also recommends Method 3, with some minor modifications. Pacific Bell (p. 8) points out that Method 3 has the advantage of assigning all 800 data base exogenous costs to the proper service category. And NYNEX (p. 7) states that "[u]nder Method 3 the price cap index (PCI) would be adjusted but the rates, indices and limits for existing categories within the traffic-sensitive basket would not change, thereby preserving the existing degree of pricing flexibility."[14] Because Method 3 is not as

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[14] As several LECs have pointed out, Method 3 will require a waiver, because a change in PCI typically must trigger a change in the upper and lower limits of all the service

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complex as Method 1 and, unlike Method 2, does not create unintended and unwarranted pricing flexibility in existing service categories, the LECs that are required to correct their restructure methodology should be directed to use Method 3.

As the July 19 Order found, Method 1, used by some companies to perform the restructure, has the advantage "that implementation of 800 data base rates results in only minor changes in pricing flexibility in the original service categories."[15] Although as Ameritech (p. 6) points out, the "end result is desirable in that the rates for existing service categories are not affected and pricing flexibility only changes by a minor amount," Method 1 involves substantial complexity. As BellSouth (Exh. 1, B, p. 1) which used Method 1 concedes, the "disadvantage to this method is that it is the most complex to implement and most difficult to understand." Therefore, although the outcome under Method 1 is generally consistent with price cap policies (and

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categories. See, e.g., NYNEX, p. 7. See Section 61.47(e) of the Price Cap Rules, 47 C.F.R. § 61.47(e).

[15] July 19 Order, ¶ 21. At the same time, Method 1 appears to require a waiver of price cap rules "because there is no downward SBI adjustment at the time of the restructure to reflect reductions in the rates for the original categories." Id.; SWBT, p. 6; NYNEX, p. 7; but see BellSouth, Ex. 1 B. Issue 2. See Section 61.47(a) of the Price Cap Rules, 47 C.F.R. § 61.47(a).

perhaps need not be corrected for this filing), its future use should not be permitted.

Method 2, on the other hand, violates price cap principles. Because this method has the effect of spreading data base costs into other service categories, it creates unintended and unwarranted additional pricing flexibility in those service categories.[16] This is inconsistent with the Commission requirements for a restructure of this nature. Consequently, this method will allow LECs to recover data base costs from customers who do not use data base service, contrary to cost-causation.[17] As the Commission found, although "Method 2 appears to comply with price cap rules, [it] has the effect of raising the upper and lower limits of the existing service category, thus creating in existing service categories significant pricing flexibility

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[16] This is demonstrated numerically in Appendix B.

[17] The Commission has consistently required access rates to satisfy principles of cost-causation. _See_, _e.g._, _800 Rate Structure Order_, ¶¶ 6, 13; _Southwestern Bell Telephone Co._, Memorandum Opinion and Order, Mimeo No. 2621 (February 14, 1986), ¶¶ 2, 9 ("The Commission's well established policy holds that . . . the cost of providing service is the basis of just, reasonable and non-discriminatory ratemaking, especially with regard to access generally"). _See also_ _MTS and WATS Market Structure_, 93 F.C.C.2d 241, 402, _recon._, 97 F.C.C.2d 682 (1983), _remanded in part sub nom._, _NARUC v. FCC_, 737 F.2d 1095 (D.C. Cir. 1984), _cert. denied_, 469 U.S. 1227 (1985) ("costs should be assigned to the cost causer in order for society to best utilize its resources").

opportunities that were not available prior to the restructure."[18]

Ameritech (p. 6), which employed Method 2, admits that with this method "the gap between the SBI and upper SBI limit is increased," and SWBT (pp. 4-5), which also used this method, specifically concedes that the effect of Method 2 is "an increase in the upward pricing flexibility for the existing service categories in the traffic-sensitive basket with a corresponding decrease in the downward pricing flexibility." And, as Bell Atlantic (p. 3 n.6) points out, "Method 2 . . . results in the relationship of SBIs for Local Switching, Transport and Information service categories being different after the restructure even though the rates in these service categories did not change and the exogenous cost was associated only with the 800 data base service category." Pacific (p. 7) further remarks that with Method 2, "exogenous costs for a specific service are spread to unrelated services, which is counter to the Commission's goal that cost causers bear the related costs." Thus, as these parties confirm, because Method 2 results in unintended pricing flexibility in other service categories and results in 800 data base costs being spread to these other categories, the LECs (Ameritech, NYNEX, SNET, SWBT and U S WEST) that used Method 2 should be required to correct their

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[18] July 19 Order, ¶ 22.

restructure methodology to comply with the intent of the Commission's price cap rules and policies.

A number of companies have suggested that any revisions in price cap methodology should be prospective only.[19] In this proceeding the Commission is investigating whether the LECs' 800 data base access tariff filings comply with the price cap rules and policies. Thus, if the Commission finds that the LECs that used Method 2 have violated price cap requirements in restructuring their traffic-sensitive baskets, those companies should be required to correct their filings. Because the combination of the 800 data base restructure/exogenous cost change is a one-time event, a failure to require compliance with price cap policies now, will effectively and permanently leave the affected LECs with unintended upward pricing flexibility in service categories (other than the new data base category) in the traffic-sensitive basket. The Commission should therefore prescribe Method 3 as the appropriate method for implementing the 800 data base restructure and exogenous cost change and require the LECs to correct their 800 data base filings accordingly.

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[19] See, e.g., Pacific, p. 5 (retroactive application would be burdensome and unfair); SNET, p. 6.

II. SEVERAL PRICE CAP LECS HAVE FAILED TO JUSTIFY THEIR EXOGENOUS COSTS.

A number of LECs have overstated their exogenous adjustments by including overhead expenses and tandem costs, and by using levelized demand in their computations, as shown in Parts II A, B, and C, below.

A. Overhead Costs

The 800 Rate Structure Order (¶ 27) allows the LECs to treat as "exogenous" those costs reasonably "incurred specifically for the implementation and operation of the basic 800 data base service." All other costs the LECs incurred "will not be afforded exogenous cost treatment" (id., ¶ 28). Overhead costs by definition are not specific to any particular service and, as such, do not qualify for exogenous treatment. Consistent with this ruling, the Suspension Order (¶¶ 16-17) specifically disallowed inclusion of overheads in the calculation of exogenous costs and ordered those LECs that had included overhead costs to recalculate their PCIs. In accordance with this ruling, most LECs have abandoned their claims for exogenous treatment of overhead costs.[20]

In their Direct Cases, three LECs, Bell Atlantic (App. B, item 6), SNET (p. 7) and United (p. 11, question 12), however, continue to advocate the inclusion of

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[20] See, e.g., Ameritech, Att. I, p. 4; NYNEX, Att. A, p. 3 of 5; Pacific Bell, p. 10; SWBT, p. 7.

overhead costs as part of the exogenous adjustment.[21] Each of these companies appears to be claiming that the so-called "overhead" costs for which they are seeking exogenous treatment are in fact "directly attributable" to the establishment of 800 data base service and hence qualify for exogenous treatment under the Commission's rulings. But they rely on the proposition that "overheads" are related to investments in some fixed relationship, i.e., an allocation factor, and that, because new investment was required for 800 data base implementation, "overheads" must have increased as well. Moreover, none of these companies shows that their company overheads in total increased as a result; it may be that the resources used for 800 data base implementation were diverted from other activities without a net incremental cost increase for the carrier. In the absence of evidence of an actual direct relationship of increased total expenses to the establishment of 800 data base service, exogenous treatment is unwarranted.[22]

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[21] SNET continues to include $343,338 of overhead costs, thereby overstating its PCI by this amount. Although Bell Atlantic and United have removed overhead costs from their PCIs, they continue to advocate the inclusion of overhead costs, relief which if granted would raise Bell Atlantic's PCI by $3,924,815 and United's by $697,415.

[22] Similarly, in seeking exogenous treatment for the costs of establishing an 800 repair center, Bell Atlantic (p. 4 and App. C) makes no showing that this activity resulted in an incremental increase in total expenses. Thus, because it is entirely possible that repair center expenses will be recovered as part of the overhead already embedded in Bell

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Furthermore, even if Bell Atlantic and United could show increased overhead expenses during the 800 data base implementation period, an exogenous adjustment would be inappropriate. This is because the expenses claimed by these LECs are one-time expenses incurred during the initial 800 data base implementation period. These one-time expenses were fully recovered by Bell Atlantic's and United's rates in effect during 1992 and early 1993. Indeed, not only did these companies recover their allegedly extraordinary overhead expenses, but their rates produced returns in excess of those authorized and thus both companies were required to file "sharing" adjustments.[23] Furthermore, if such expenses were included as part of an exogenous adjustment (which they should not be), there would have to be a reversing adjustment in the following year. Otherwise, these one-time expenses would be recovered year after year, ad infinitum.

Finally, United claims that the recovery of overheads should be factored into 800 data base rates. Although it may very well be appropriate to set 800 data base

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Atlantic's access rates, these costs should not be afforded exogenous treatment.

[23] See Bell Atlantic, Trans. 565, filed April 2, 1993, D&J Sect. 5, Workpaper 8-52-C; United, Trans. 319, filed April 2, 1993, D&J, pp. 8-9, Ex. 2 RDEV-1, p. 4 of 6. See also AT&T Opposition to Direct Cases, 1993 Annual Access Tariff Filings, CC Docket No. 93-193, filed August 24, 1993, pp. 18-19 and Appendix B-3.

rates to recover a certain level of overhead, that is an issue entirely unrelated to the inclusion of overheads in an exogenous adjustment.[24] The real issue is whether an exogenous adjustment would cause double recovery of certain expenses, which as shown above, it would. Therefore, the Commission should not allow exogenous treatment for overhead costs.

B. Tandem Costs

Pacific (pp. 10-11) continues to improperly seek exogenous treatment for $7,614,764 of access tandem upgrade costs. As the Commission has pointed out:

> "We emphasize, however, that exogenous treatment will only extend to those costs incurred specifically for the implementation of basic 800 data base service. Those costs which are not reasonable and which are not specifically incurred for the implementation and operation of the 800 data base system, such as core SS7 costs, will not be afforded exogenous cost treatment. Nor will the costs of accelerating SS7 deployment to meet our implementation timetable be granted exogenous treatment. We anticipate that exogenous treatment will be accorded to those costs associated with: Service Control Points (SCPs), the Service Management System (SMS), and links between SCPs and the SMS, as well as between Signal Transfer Points (STPs) and SCPs, to the extent such costs are directly attributable to 800 data base service."[25]

In its Direct Case, Pacific (p. 10) claims that "[t]andem upgrades should . . . be extended exogenous cost

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[24] Suspension Order, ¶ 17 and n.13.

[25] 800 Rate Structure Order, ¶ 28 (emphasis supplied).

treatment because those costs were only expended to meet the Commission's 1993 access time standards." The Commission has already determined that exogenous treatment would not be accorded to expenses associated with accelerated deployment to meet Commission deadlines. Accordingly, Pacific's request for exogenous treatment of tandem upgrades should be denied.[26]

C. Levelized Demand

In their 800 data base access tariff filings, Ameritech, Bell Atlantic and NYNEX improperly used levelized demand over a five-year period to compute their exogenous costs. This method which relies on future demand is not appropriate for computing exogenous cost adjustments, because the price cap mechanism is self-adjusting for the effects of demand.

In their filings, these LECs determined the annual expense associated with basic queries by multiplying the unit

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[26] This is appropriate because, as Commissioner Duggan has explained:

> "The great majority of costs associated with conversion to an 800 database system are properly associated also with present and future network services. Even those costs used solely for 800 database may yield substantial efficiencies and savings to the local companies . . . . I am satisfied, however, that our decision here substantially limits the amount of exogenous costs allowed, and that our tariff review process will be strict."

800 Rate Structure Order, Separate Statement of Commissioner Ervin S. Duggan (emphasis supplied).

cost for basic query by the annual query demand. Based upon a presumption that demand increases each year, these LECs then used a levelizing technique to equalize their expense recovery over a period of five years. However, under price caps, an exogenous cost adjustment is automatically inflated in dollar terms each year by virtue of higher actual demand in those later years. As such, the combination of levelization with the self-adjusting feature of price cap demand permits the LECs to, in effect, double count demand.[27] The levelizing used by these LECs results in an overstatement of their exogenous cost adjustment, because the levelized demand is greater than the actual first year demand.[28]

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[27] Moreover, after using levelized demand to calculate its total 800 data base costs, NYNEX then divided those costs by 1991 base period demand (rather than the same prospective demand used for cost development) to calculate its per-query charge. (NYNEX, p. 8 and Appendix, p. A-3 for NET and NYT, respectively). As a result of this mismatch between the demand base used to calculate total costs and that used to set rates, NYNEX will overrecover approximately $12 million. Likewise, Pacific was also inconsistent in dividing 1992 base period costs by 1991 (rather than 1992) base period demand to derive its query charge, which will result in a $1.2 million overrecovery. See Pacific, p. 14 and Pacific Transmittal No. 1632-Amended, filed August 13, 1993, Workpapers III.A.3 and IV.A.3.

[28] The PCI impact of improper levelization for Ameritech, Bell Atlantic and NYNEX is $1,673,916, $1,340,543 and $1,346,304, respectively. The LECs' own tariff support plainly sets forth the difference in actual and levelized demand. See Ameritech, Trans. 698 D&J, Exh. 2, p. 1 of 2; Bell Atlantic, Trans. 560 D&J, Workpaper 5-6; NYNEX, Trans. 168 D&J, Workpaper WS-1.1. As demonstrated by the above-named LECs' tariff support, these sums were determined net of overheads. To the extent that Bell

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In its Direct Case, Ameritech (p. 10) claims that demand growth does not directly affect the PCI. Ameritech misses the point. AT&T did not claim that demand changes the PCI over time. Rather, increasing demand causes increasing revenue recovery over time, even if the PCI and rates remain constant. Thus, whereas the levelization process assumes equalized revenue recovery over time, an exogenous adjustment taken in one year will have increasing revenue consequences in subsequent years in a situation where demand is increasing, as shown in Appendix C.

NYNEX (p. 11) claims that AT&T advocated the use of first year demand because it would have resulted in a lower level of exogenous costs. This is only part of the reason, however; the complete reason is that it would result in the recovery of a greater amount of revenue over the five-year period than would be warranted by the present value of NYNEX's projected five-year levelized expense. This is also demonstrated in Appendix C. Therefore, the LECs using levelized demand should be required to recompute their exogenous cost adjustments.

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Atlantic's overheads are not disallowed from exogenous treatment, the impact from the use of the levelization method would be greater.

CONCLUSION

For these reasons, the companies listed in Appendix A should be required to revise their restructure/exogenous cost methodology, recompute exogenous adjustments, revise noncomplying rates, and refund overstated amounts collected during the pendency of this investigation.

Respectfully submitted,

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LECs' IMPROPER METHODOLOGY FOR PERFORMING THE 800 DATA BASE RESTRUCTURE/EXOGENOUS CHANGE AND IMPROPER CALCULATION OF THE EXOGENOUS ADJUSTMENT

LEC	Method 2 Correction*	Improper Exogenous Treatment of Overhead Costs	Improper Exogenous Treatment of Tandem Costs	Improper Exogenous Costs Developed Using Levelized Demand
Ameritech	X			$1,673,916
Bell Atlantic**		X***		1,340,543
BellSouth**				
NYNEX	X			1,346,304
Pacific**			$7,614,764	
SNET	X	$343,338		
SWBT	X			
United**		X***		
U S WEST	X			
TOTALS		**$343,338**	**$7,614,764**	**$4,360,763**

* LECs that used Method 2 should be required to recompute the SBI and upper and lower SBI limits for the service categories in the traffic-sensitive price cap basket.

** These LECs used Method 1.

*** Bell Atlantic and United seek to justify $3,924,815 and $697,415, respectively, in previously disallowed and removed overhead costs.

CHANGE IN PRICING FLEXIBILITY USING THE THREE METHODS FOR COMPUTING THE 800 DATA BASE RESTRUCTURE/EXOGENOUS COST CHANGE

EXAMPLE: BELL ATLANTIC TRANS. 560 - LOCAL SWITCHING SERVICE CATEGORY

Existing PCI	93.7730
Proposed PCI	94.7171
PCI Change	0.010067
Restructured 800 NXX Rev.	(559,792)

	REVENUE	SBI	UPPER LIMIT	LOWER LIMIT	FLEXIB. UPPER	FLEXIB. LOWER
METHOD 1:						
Existing	406,756,930	103.3721	103.3753	93.5300	12,523	(38,727,425)
After Restructure	402,148,341	103.3721	103.3753	93.5300	12,381	(38,288,640)
After Exogenous	406,197,138	104.4128	104.4161	94.4717	12,474	(38,674,156)
METHOD 2:						
Existing	406,756,930	103.3721	103.3753	93.5300	12,523	(38,727,425)
After Exogenous	406,756,930	103.3721	104.4161	94.4717	4,107,849	(35,022,130)
After Restructure	406,197,138	103.2298	104.4161	94.4717	4,667,641	(34,462,338)
METHOD 3:						
Existing	406,197,138	103.3721	103.3753	93.5300	12,506	(38,674,127)
After Exogenous	406,197,138	103.3721	103.3753	93.5300	12,506	(38,674,127)
After Restructure	406,197,138	103.3721	103.3753	93.5300	12,506	(38,674,127)